



Office of Inspector General

June 20, 2013

MEMORANDUM

TO: USAID/West Bank and Gaza Mission Director, Michael T. Harvey

FROM: Regional Inspector General, Catherine Trujillo /s/

SUBJECT: Review of Selected Incurred Costs and Internal Controls for Parents Circle-Family Forum for the Period September 2011 through December 2012
(Report No. 6-294-13-003-S)

This memorandum transmits our final report on the subject review. We have considered carefully your comments on the draft report and have included them in Appendix II.

Although not an audit, the report includes two recommendations for USAID/West Bank and Gaza. Based on management's comments on the draft report and other information provided, we acknowledge that the mission made management decisions on both recommendations and completed final action on Recommendation 1.

Please provide the Office of Audit Performance and Compliance Division with the necessary documentation to achieve final action on Recommendation 2. Recommendation 1 is closed upon the issuance of this report.

Thank you for the cooperation and courtesy extended to the review team during this review.

SUMMARY OF RESULTS

USAID/West Bank and Gaza's reconciliation program is part of a worldwide effort to support a "people-to-people" conflict mitigation and reconciliation process¹ between Israelis and Palestinians. The goal is to improve mutual understanding and dialogue on areas of common concerns to ultimately address and resolve the root causes of conflict. The mission implemented its program through a number of grants addressing conflict management and mitigation (CMM).

According to USAID and the State Department, CMM grants are part of a congressionally mandated effort. Since the program's inception in 2004, USAID/West Bank and Gaza and the U.S. Embassy in Tel Aviv have supported 55 CMM grants for Israel and the West Bank and Gaza. According to mission records, it had 26 active grants totaling \$22.3 million and disbursed \$9 million through December 31, 2012.

As part of its CMM program, USAID/West Bank and Gaza entered into a \$700,000 cooperative agreement—AID-294-A-11-00018—with Parent Circle-Families Forum (PCFF) effective September 30, 2011, through September 29, 2013, to implement the Where Parallel Lines Meet (WPLM) program. Its purpose is to provide a means for Israeli and Palestinian families that have lost a family member in the Palestinian-Israeli conflict to share their experiences with youth and young adults; it also aims to bring more women into the reconciliation process. As of December 31, 2012, PCFF had incurred \$252,099 in program expenses and recorded \$246,931 in cash advances from the mission.

The Regional Inspector General/Cairo (RIG/Cairo) conducted this review at the request of USAID/West Bank and Gaza to answer the following objectives.

- Has PCFF taken corrective action on internal control deficiencies identified in prior audits?
- Are selected incurred costs allowable, allocable, and reasonable in accordance with the terms of the agreement and federal regulations?

The audit team found that PCFF had resolved the internal control problems reported in prior financial audits in the areas of supporting documentation for incurred costs, written approvals on time sheets, and bank account management.² In addition, PCFF had addressed the special award conditions in Section A.12 of the agreement by implementing written accounting procedures covering procurements, timekeeping and payroll, travel, and disbursements. Review of the procurement, timekeeping, travel, and banking controls disclosed no basis for exception.

For the second objective, the review team evaluated seven cost accounts included in the PCFF project cost ledger. We found \$2,868.67 in questioned ineligible salary costs, which included translator services.

¹ According to USAID guidance, "people-to-people entails bringing together representatives of conflicting groups to interact in a safe space. This type of work addresses divisions within a community that may be rooted in differences such as ethnicity or religion or status as a returning ex-combatant, displaced persons, or refugee."

² The PCFF reports reviewed included 6-294-10-028-N dated July 22, 2010, 6-294-010-001-N dated October 21, 2009, and a draft report from PricewaterhouseCoopers (PWC) dated August 29, 2012.

According to the general principles in Office of Management and Budget Circular A-122, factors affecting the allowability of costs include being consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization. Under these principles, a cost is allocable to a federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances, and if it benefits both the award and other work and can be distributed in reasonable proportion to the benefits received.

Review of incurred salary costs under the WPLM program showed that PCFF did not allocate cost consistently among all the programs it was working on. PCFF requires its employees (including contract employees like its translator) to complete monthly time sheets documenting actual hours worked on each program to include any overtime for each week—though PCFF does not pay overtime. PCFF charged total labor costs to all its programs using an allocation method; prorating labor costs across all the programs the employee worked on based on a percentage of a standard work month.

However, instead of using actual hours worked to allocate and charge salary costs to WPLM, PCFF used a standard work month based on 8 hours per day, 5 days per week. For example, a projects manager worked and recorded on his time sheet a total of 251 hours in October 2012—151 hours charged to the WPLM program and the balance charged to other programs. To allocate his labor costs for October 2012, PCFF calculated the percentage of the time charged to all the programs he worked on based on 160 hours, the total number of hours paid. Therefore, PCFF charged WPLM 94 percent of this employee's labor costs for October 2012, dividing 151 hours worked on WPLM by 160 hours. PCFF charged the balance of the labor costs to the other programs based on their prorated share.

PCFF's allocation method of excluding the overtime hours from the total used to compute the allocation percentages results in an inequitable share of labor costs charged to WPLM. Taking into consideration all the hours worked, WPLM should have been charged 60 percent of the employee's salary (151 hours worked on WPLM divided by 251 total hours charged). Our review showed that allocation percentages were over/understated between 48.84 percent to (1.65) percent. Overall WPLM was overcharged \$2,869.67 in labor costs.

PCFF officials said the calculation was fair since they presented the planned budget to the mission based on a 5-day workweek with 8 hours a day. They said that if employees decided to work extra hours because of workload, this should not have reduced the percentage allocated to WPLM.

In discussions with mission officials, they said they did not know PCFF was using this allocation method. It assumed that employees worked on WPLM first; any work they did on the other programs was unpaid overtime—a very unlikely scenario and not supported by the time sheets. Since PCFF did not pay overtime, WPLM did not get any of the benefit of the uncompensated overtime worked on the program. We therefore make the following recommendations.

Recommendation 1. We recommend USAID/West Bank and Gaza determine the allowability of the \$2,869.67 in ineligible questioned cost and issue a bill of collection as appropriate.

Recommendation 2. We recommend that USAID/West Bank and Gaza review all of Parent Circle-Families Forum salary expenses under its USAID-funded program and collect as appropriate any additional questioned costs.

The review scope and methodology are described in Appendix I. Our evaluation of management comments is included on page 4. The full text of management comments is included in Appendix II.

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/West Bank and Gaza agreed in principle with the two recommendations. We have acknowledged management decisions for both recommendations. Final action has been taken on Recommendation 1.

Recommendation 1. USAID/West Bank and Gaza made a final determination to allow the questioned ineligible labor costs. We acknowledge that the mission made a management decision and final action has been taken on Recommendation 1.

Recommendation 2. The mission agrees in part with this recommendation and has made a determination that in the future, PCFF must correct the method used to allocate its salary expenses under its USAID-funded awards to help ensure that no salaries are overcharged or understated. PCFF will have until June 30, 2013, to propose a reasonable allocation method for its salaries and to confirm implementation of its corrective actions. By October 30, 2013, the mission's financial management office will perform a follow-up review and will report any findings to the agreement officer. The target completion date for this action is October 30, 2013. As a result, we acknowledge that the mission made a management decision on Recommendation 2.

SCOPE AND METHODOLOGY

Scope

This review was conducted in accordance with Government Auditing Standards—specifically, with the general standards in Chapter 3, the evidence standards in Sections 6.56 through 6.59, the documentation standards in Sections 6.79 through 6.83, and the standards for developing elements of a finding in Sections 6.74 through 6.77. These standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with the review objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of this review was to determine whether PCFF has taken corrective action on (1) internal control deficiencies identified in prior audits in the areas of supporting documentation for incurred costs, written approvals on timesheets, and bank account management, (2) has addressed the special award conditions in Section A.12 of the agreement, and (3) whether selected incurred costs were allowable, allocable, and reasonable in accordance with the terms of the agreement and federal regulations. As of December 31, 2012, PCFF had recorded \$252,099 in program expenses and \$246,931 in cash advances. We reviewed \$309,308.31 in financial transactions.

We performed this review from March 5 through March 20, 2013, conducting fieldwork at USAID/West Bank and Gaza and PCFF in Tel Aviv, Israel.

Methodology

To answer the review objectives, we interviewed officials from USAID/West Bank and Gaza, and PCFF. We also reviewed and analyzed relevant documents and data at the mission and at PCFF. Documents included the agreement, accounting reports, PCFF written procedures, and supporting documentation for transactions such as invoices and time sheets.

Based on mission concerns, we selected a judgmental sample of financial transactions recorded in seven accounts within PCFF's accounting system. The results of the judgmental sample cannot be generalized to the full population of financial transactions.

MANAGEMENT COMMENTS



UNCLASSIFIED

MEMORANDUM

DATE: June 14, 2013

TO: Catherine Trujillo, Regional Inspector General, Cairo

FROM: Bruce Gelband, Agreement Officer, USAID West Bank and Gaza /S/

SUBJECT: Review of Selected Incurred Costs and Internal Controls for Cooperative Agreement No. AID-294-A-11-00018, Parents Circle Family Forum (PCFF) for the period September 2011 through December 2012

Report No. 6-294-13-00X-S dated May 15, 2013

REF: Trujillo /Harvey memorandum dated May 15, 2013 (Attachment A)

USAID West Bank and Gaza wishes to thank the Regional Inspector General/Cairo for conducting and issuing the subject report for the subject cooperative agreement. We appreciate your team's cooperation and the thoroughness they exerted in performing this review.

We have reviewed the subject report and the following is the Agreement Officer's management decision regarding Recommendations No. 1 & 2:

Recommendation No. 1:

We recommend USAID/West Bank and Gaza determine the allowability of the \$2,868.66 in ineligible questioned cost and issue a bill of collection as appropriate.

Management Decision

The Agreement Officer agrees with auditors' analysis and determination on the proper allocation of salary expenses. However based on the review report, no concerns were identified by the RIG with regard to the accuracy and completeness of PCFF's timesheets and PCFF has accurate and complete timesheets to account for the actual time worked. Therefore, the Agreement Officer determined that the cost of \$2,868.66 is allowable under the subject award.

Once RIG/Cairo acknowledges the Mission's management decision, M/CFO/APC will automatically close Recommendation No. 1 in CACS with no further action required by the Mission.

Recommendation No. 2:

We recommend that USAID/West Bank and Gaza review all of Parent Circle-Families Forum salary expenses under its USAID funded program and collect as appropriate any additional questioned cost.

Management Decision

The Agreement Officer agrees in part with this recommendation and has made a determination that in moving forward PCFF must correct the method of allocation of their salary expenses under USAID funded award to ensure that none of the salaries are overcharged or understated under USAID award. To do so, the Mission's Financial Management Office staff (FMO) will work closely with PCFF to explain this finding and the requirements of OMB circular A-122 requiring that PCFF consistently apply the policies and procedures, pertaining to the allowability of costs, to both Federal and Non-Federal financed activities to ensure that costs are distributed in a reasonable proportion to the awards receiving the benefits. FMO will provide PCFF with guidance and instructions for implementing an adequate system and will perform a follow-up review to ensure that PCFF is implementing this system prior to billing USAID for any expenses related to salaries.

This process will commence immediately and PCFF will be allowed until June 30, 2013 to propose a reasonable allocation method of its salaries and to confirm implementing their corrective actions. By October 30, 2013, FMO will perform their follow up review and will report back to the Agreement Officer on their findings.

As mentioned above, based on the review performed, no concerns were identified by the RIG with regard to the accuracy and completeness of PCFF's timesheets to necessitate the need to review all past charges under the subject agreement. The Agreement Officer determined that the above steps, once implemented, will mitigate any similar concerns in the future and will ensure that PCFF's capacity is strengthened to comply with USAID's requirements for allowability of costs as it pertains to salary expenses.

**Table 1. Questioned Labor Costs
Redacted**